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The FY 1997-2001 Defense Budget

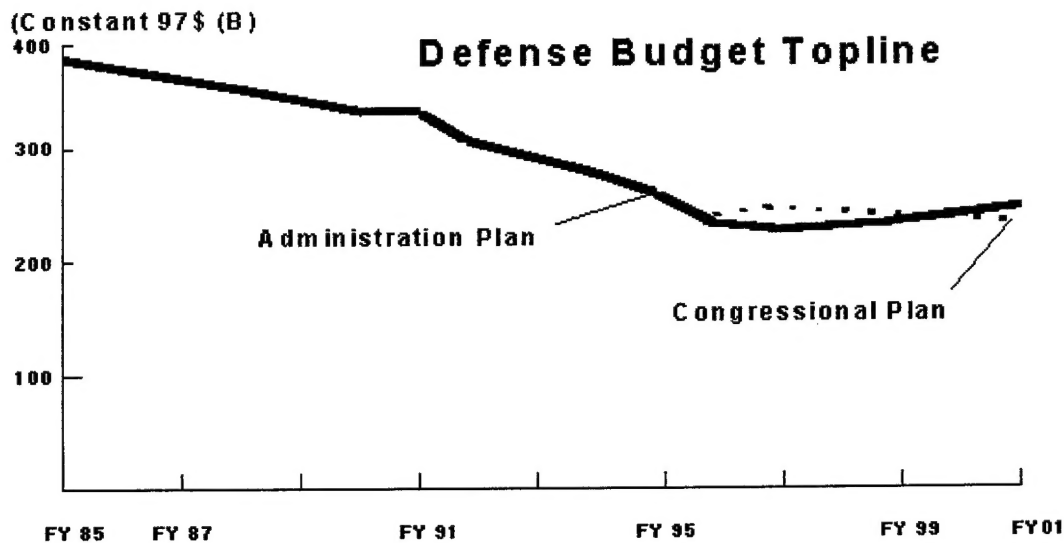
by Stuart Johnson and James Blaker

Conclusions

- The defense budget has declined by some 40 percent since its Cold War peak and has leveled off for now.
- There is little difference between the Administration and the Congressional Republican leadership over total defense spending.
- Full recapitalization of the existing force structure will require an increase in the procurement account to some \$60 billion per year.
- Two relatively new concepts are emerging as ways to preserve military capability despite tight budgets:
 - expanding joint perspectives in the Pentagon's planning,
 - capitalizing on opportunities offered by technology, especially information technologies.

The Budget Debate: How Much Is Enough?

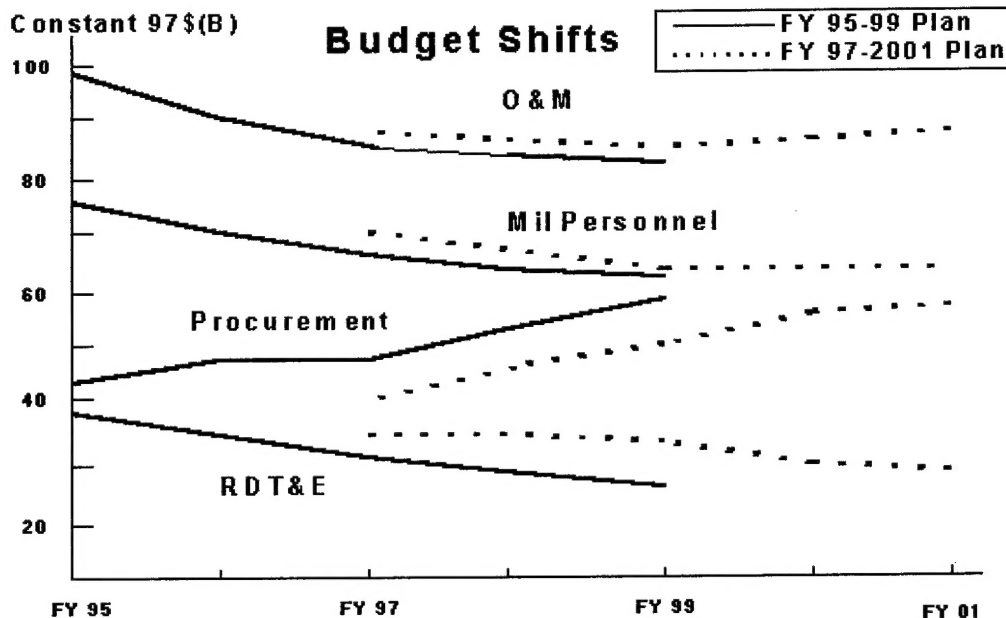
The Administration has requested \$242.6 billion in budget authority for the Department of Defense for FY 1997, a decrease of \$9B from the FY96 authorization. Its five-year projections call for budget authority to increase gradually to \$244.9 billion in 2001 in FY 97 dollars. In contrast, the Congressional Republican leadership has proposed a five-year program that holds defense spending roughly constant in FY 1997 and then declines gradually to \$240B in FY97 dollars in 2001. As figure 1 indicates, this request signals a leveling out of the post-Cold War decline in defense budgets that began in the mid-1980s.



The corresponding reduction in force structure is now essentially complete. The Administration's target for active duty personnel--1.4 million by 2001--will be nearly reached by the end of FY 1997 and the active force structure set by the Bottom-Up Review (BUR) 10 Army divisions, 11 aircraft carriers with associated battle force ships, 13 Air Force fighter wings, and three Marine Corps divisions will also essentially be in place. The Defense Department currently has no plans to alter this force structure.

In broad terms, the budget request shows the Administration remains strongly committed to: (1) maintaining the high level of readiness of today's force, (2) raising the quality of life for military personnel, and, (3) assuring significant defense research and development funding. It seeks to pay for these priorities by delaying a significant increase in procurement funding until the later years in the budget submission. These priorities are best indicated by comparing the FY 1997-2001 budget request to previous budgets (see figure 2).

Over the last several years, the Defense Department has raised its requests for operations and maintenance funding (key components of readiness), military personnel, and, less dramatically, for research and development. But it has shifted its multi-year requests for procurement downward, in effect moving the year at which it hopes to reach an annual procurement level of about \$60 billion--the target that most feel is needed to recapitalize and modernize the force structure--farther into the future. This approach has become the focus of the first serious debate since the end of the Cold War over the character and future of the nation's military power.



The

Department and Congress:

The Tips of Icebergs

The initial response of the Republican-led Congress to the Administration's defense budget request has been criticism that it is "too low," a criticism focused primarily on the level of procurement. The request calls for about \$40 billion for procurement in FY 1997, increasing to about \$60 billion by the end of the five year defense program in FY 2001. All indications are that Congress will attempt to add some \$8 billion in procurement funding in the mark-up of the FY 97 budget. In the FY 96 mark-up, Congress appropriated about \$7 billion more than the Department requested (80% of that in procurement funding), and, to keep its own multi-year defense plan funded, Congress would have to add about \$14 billion to the FY 1997-2001 request this year. The Pentagon did not welcome last year's Congressional addition, however, for much of the added funding went to programs (the B-2, national ballistic missile defenses, and others) it saw as lower priority and unaffordable. Because the procurement additions carry spending requirements well into the next century--more B-2s, for example, mean higher maintenance and personnel funding requirements downstream--the Joint Chiefs and Secretary of Defense worry about new funding if it goes for lower priority programs.

Two other concerns lurk beneath the initial congressional critique of the Administration's budget submission. The first is that the Pentagon is now requesting an overall level of funding below what it said in 1993 would be necessary to support the BUR force structure. Earlier Pentagon budget projections, submitted in the first and second years of the Administration were between \$20-30 billion higher per year for the first three years of the current FY 1997-2001 request. The Administration argues the earlier estimates did not reflect the current low inflation rate nor the payoffs from acquisition reform and privatization it has since put in place, and that the earlier budget submissions underestimated base closure savings over the next five years. But to the hawks in Congress, this sounds like a cover for cutting the defense budget below what they believe is justified.

The second concern is the impact of a balanced budget. The President and Congress have not agreed on how to reach the balance but a balanced budget will require decreases in "mandatory spending"--that is,

funding for entitled programs such as social security. When that happens, some of the current "discretionary" funding, which includes defense, will no doubt be used to keep the politically potent entitlements from going down too much, too fast. Some of this transfer will have to come from what otherwise would be spent on defense because Defense Department expenditures currently absorb a bit more than half of all Federal discretionary spending.

These pressures on the defense budget are forcing a significant debate on the future of the nation's defense. Meanwhile, the emergence over the last two years of what some call the American revolution in military affairs (RMA) and the growing influence of a joint perspective in Defense Department programming offer some new options for easing the tensions. The issues embedded in the FY 1997 budget request are therefore a prelude to the debate to come next spring, after the Presidential election, as part of the first "quadrennial strategy review."

Current Readiness versus Long-Term Readiness

At the heart of the different views on procurement levels is an argument over the proper balance between the readiness of the current force--largely a function of the amount of money that goes into operations, maintenance, and training--and the readiness and composition of the military force that will exist early in the next century. Future readiness depends in large part on the amount of materiel procured not only to buy new kinds of weapons but also for "recapitalization"; namely, replacing existing models of trucks, tanks, aircraft, ships, and other equipment. Recapitalization provides "younger" equipment, which generally requires less repair, and therefore helps raise the readiness ratings of the units to which it is sent.

There is broad consensus that a procurement budget of about \$60B per year is required to effect recapitalization of the current force. The debate is currently focused on how soon the \$60 billion annual level for procurement should be generated, with the administration arguing not until FY 2001 and Congress leaning toward getting there sooner.

But the debate really stems from two more fundamental questions: "How much readiness is needed, and for what?", and whether the United States should maintain the BUR force structure. These more basic questions tie the emerging Defense budget debate into foreign policy, strategy, military "jointness", and the American RMA.

Both the force structure and readiness "requirements" are rooted in particular planning scenarios, the most dominant of which is that of *two major regional contingencies (MRC) that occur nearly simultaneously*. These are currently viewed as a conflict with Iraq and North Korea. Specificity regarding place and "threat" allows planners to size and structure U.S. forces. Assumptions about the timing of the contingencies--and assumptions about how the United States would fight them--allows planners to derive the desired readiness of units in the force structures. The planning scenarios are not predictions of what will occur (although making them plausible with regard to today's flashpoints makes it easier to justify them). Instead, they are designed to illuminate the need for particular capabilities, such as strong armored ground forces (driven largely by an assessment of the threat and terrain in Southwest Asia), robust strategic lift (driven by the distant location), and strategic agility (driven by the timing and location of the planning contingencies.) In other words, planners start with notions of desired capabilities when they design the planning scenarios. And the current planning scenarios, last revised in 1993, reflect what the administration saw then as needed military capabilities.

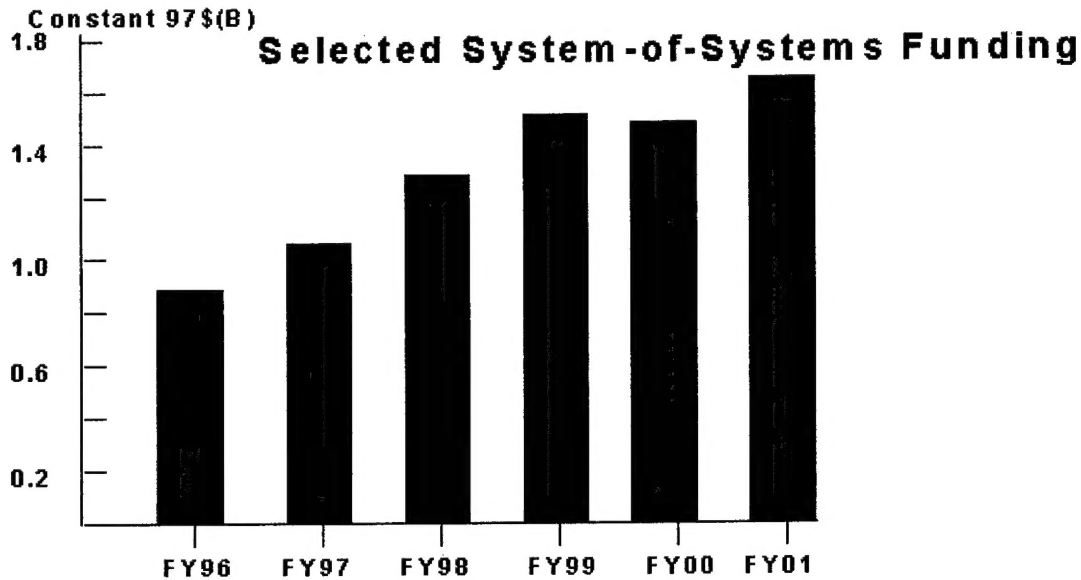
Yet, arguments that the planning scenarios ought to be changed now circulate within the Pentagon and

Congress. Some criticize the scenarios for being too demanding; others argue they are increasingly incredible, as prospects for the demise of North Korea increase. Yet, disagreement with the planning scenarios is a surrogate for debate about what U.S. military forces in the years ahead ought to look like and do. Beneath the critiques of the planning scenarios, interest is growing in changing the size, character, and readiness of the force, or the way the Pentagon currently thinks about using military force.

There will be two relatively new concepts in this year's discussions of the Defense budget. One is the implications of a growing joint perspective in the Pentagon's planning, programming and budgeting. The other is what opportunities technology and the information age imply for the structure of future U.S. forces. Both are, and will be touted as, solutions to some of the underlying tensions that will drive the debate over the budget, for both promise the same, or more, military capability for less money.

A joint perspective--prompted by JCS Chairman General John Shalikashvili and pounded out by the Joint Requirements Oversight Council (JROC)--claims higher warfighting capability by getting force components to operate more synergistically, and lower costs by reducing unnecessarily redundant capabilities. A joint perspective probably also means adjustments in the service shares of the budget. Such adjustments are not identifiable in the FY 1997 budget submission. The portion of the defense budget devoted to non-service specific, Department-wide resources has been growing gradually since 1984. But the service shares of the rest of the defense budget have been fairly stable--varying within about 5 percent--for well over a decade. The portions of the budget proposed for each service over the next five years are consistent with this pattern--the administration is not interested in any significant changes in service budget shares for the remainder of this century.

The budget does reflect some influence of the former Vice Chairman of the Joint Chiefs, Admiral William Owens who argued for integrating the technologies of what he called the "system-of-systems;" namely, programs that together provide dominant battlespace knowledge of large geographical areas quickly and surely to U.S. strike forces who can respond with speed, precision, accuracy and lethality. Many of the specific programs that fit into the system-of-systems are funded in the budget proposal at higher levels than earlier, and the Secretary of Defense has highlighted them in his Annual Report to the President and Congress. Since it is difficult to determine precisely which programs are part of the system-of-systems and which are not, it is hard to track with precision how well the new budget really speeds the RMA. Figure 3, however, provides some tentative evidence that increased resources are starting to flow to specific programs that are central to that revolution.



In sum, the Administration's FY 1997-2001 proposal is consistent with the BUR strategy and with the current mainstream of defense planning inside the Pentagon. It does not deviate from the bi-partisan consensus--found in both the Bush Administration "Base Force" and the BUR force the Clinton Administration advanced--on shaving down a U.S. force structure built for and during the Cold War, rather than launching more radical changes. But it is an important prelude to the national debate on defense that will be part of a quadrennial strategy review next spring.

Forecast

As the reaction to the FY 1997-2001 Department of Defense budget request unfolds over the summer and into the fall, watch for:

An initial argument over the proper procurement levels, followed by, a growing discussion of whether the "2 MRC" strategy is correct, to be supplanted, by the fall, by a debate over the size and structure of U.S. military forces.

This is the first in a series of Strategic Forum discussions of the nascent national debate on the future of U.S. defense capabilities. Forthcoming issues will address such topics as changing planning assumptions inside the Pentagon, modifications of the planning, programming, and budgeting system inside the Department of Defense, and alterations in U.S. military strategy with implications for U.S. foreign policy. For more information call Dr. Stuart Johnson at (202) 685-3839, Fax: (202) 685-3973, e-mail @johnsons.inss@ndu.edu.

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